

AGENDA BOOK

**SCOPE Operating Budget
Review Subcommittee**



January 16, 2001

**131 Capitol Annex
Frankfort, Kentucky**

Tuesday, January 16, 2001

11:00 a.m. SCOPE Operating Budget Review Subcommittee Meeting
131 Capitol Annex

Committee Members:

Walter Baker
Dan Kelly
Crit Luallen
Harry Moberly
Gerald Neal
Governor Paul E. Patton
Jim Ramsey
Jody Richards
Johnnie Turner
Lois Weinberg
Charles Whitehead
David Williams

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AGENDA

SCOPE Operating Budget Review Subcommittee Meeting

January 16, 2001

11:00 a.m. (ET), 131 Capitol Annex, Frankfort, KY

- A. Roll Call
- B. Approval of November 1, 2000, Minutes
- C. Revised Points of Consensus
- D. Report from the Independent Colleges
Dr. Gary S. Cox, President
Association of Independent Kentucky Colleges & Universities
- E. Other Business
- F. Next Meeting – Full SCOPE February 7, 11 a.m., 149 Capitol Annex
- G. Adjournment

MINUTES
SCOPE Operating Budget Review Subcommittee
November 1, 2000

The Strategic Committee on Postsecondary Education Operating Budget Review Subcommittee met November 1, 2000, at 11:00 a.m. (ET) in Room 131 of the Capitol Annex, Frankfort, Kentucky. Chairman Whitehead presided.

ROLL CALL

The following members were present: Mr. Kelly, Ms. Luallen, Mr. Moberly, Mr. Neal, Mr. Patton, Mr. Ramsey, Mr. Turner, Ms. Weinberg, and Chairman Whitehead. Mr. Baker, Mr. Richards, and Mr. Williams did not attend the meeting.

*APPROVAL OF
MINUTES*

The minutes were approved by consensus.

*COMMENTS FROM
THE INSTITUTIONS*

DISCUSSION: As Convenor of the Council of Presidents, President Kern Alexander (Murray State University) spoke on behalf of the university presidents and the KCTCS president. He reported that the presidents and the Council staff reached a consensus on several points regarding the 2002-04 funding methodology. The consensus was achieved at an October 31 workshop facilitated by Dennis Jones, (president of the National Center for Higher Education Management Systems) and attended by the presidents and the Council president and executive vice president. The points of agreement were distributed at the SCOPE Subcommittee meeting and fall into five categories:

1. Base Funding (including inflationary increases, maintenance and operation funds, changes in debt service requirements, benchmarking, enrollment growth at all levels, tuition, and mandated programs).
2. Trust Funds.
3. Special and Meritorious Funding.
4. Endowment Trust Fund.
5. Space Planning Guidelines.

Within each of the five categories, the presidents and the Council president agreed to identify specific criteria to be included in the 2002-04 funding methodology, the details of which will be worked out over the next several months.

President Alexander stated that the budget methodology should be linked to institutional objectives of economic development and postsecondary education access. Of specific concern to the presidents was enrollment growth and the need to fund new enrollment at both the undergraduate and graduate levels.

Incorporating enrollment growth into the funding methodology would provide institutions with the incentive to make postsecondary education more accessible and thus enhance Kentucky's economic development.

Regarding offsetting tuition against state General Fund appropriations, the presidents believe that such a practice will increase tuition to the point that it would be comparable to tuition charged by private institutions, greatly hindering financial access to postsecondary education.

President Alexander stated that the presidents agree to support special appropriations for Kentucky State University because of the university's special historic mission and unusual circumstances. Mr. Davies agreed with the presidents' support of KSU.

President Reid made the statement that the issue is not one of affirming KSU, but enhancing KSU. The Office of Civil Rights and the Commonwealth of Kentucky agreed to enhance the institution and, based on that agreement, KSU will be requesting special enhancement funds separate and apart from continuation funding in 2002-04. President Reid stated that KSU wants to close the gap between the historic inequity and present funding.

Mr. Neal asked whether the agreement between the Commonwealth of Kentucky and the Office for Civil Rights is factored into the process. Mr. Davies said that the agreement is factored in, and the Council intends to abide by that agreement. Further, the agreement is now a partnership between Kentucky and the Office for Civil Rights and the Council is a party to the partnership. The terms of the agreement will be met and supported by the Council.

*COMMENTS FROM
THE COUNCIL
PRESIDENT*

DISCUSSION: Mr. Davies reported that the institutions' Chief Budget Officers have been meeting and have developed a document that set the initial framework for the consensus document. Many discussions between the institutional staffs and the Council staff are occurring.

He said that providing maintenance and operations funding is common practice. He recommends that M&O costs associated with split funded research buildings become the state's responsibility once the buildings come on-line.

During the 2000-02 budget development process, the Council staff talked with the Strategic Committee on Postsecondary Education about increasing the postsecondary education system by 80,000 more students at the undergraduate level. Graduate enrollment was not taken into consideration at that time; however, Mr. Davies believes graduate enrollment should be included and that now is the time to add it to the negotiated enrollment objectives of each institution.

In the 2000 session of the General Assembly, the legislature was asked to support an Enrollment and Retention Trust Fund that paid an institution about 50 percent of its appropriation per student (funding on the margin). When graduate students are added to the enrollment objectives of the institutions, the amount will increase to at least 75 percent. If the cost of graduate education is not supported in some way, the institutions will get leaner and leaner and have difficulty fulfilling their missions.

Regarding mandated programs, the decision must be made about how much mandated programming should be factored out of the benchmarking process and how the programs should be identified. Identification of the programs will be difficult because Kentucky's institutional postsecondary education budgets are lump sum; that is, the mandated programs are not line items in the budget. Perhaps the more difficult task will be identifying similar mandated programs at benchmark institutions. President Wethington (University of Kentucky) and Mr. Davies have agreed to work out the details of the approach.

The Council staff suggests that institutions be permitted to negotiate a maximum of five benchmark institution replacements for their respective benchmark lists. The basis of the suggestion is the fact that some institutions were more attuned to the benchmarking process than others. The revisions to benchmark lists must be done by July 2001.

Chairman Whitehead asked whether consideration was given to base reallocations during the presidents' workshop with the Council staff. Mr. Davies stated that the issue was addressed in two ways. First, it was addressed during discussions concerning matching requirements associated with maintenance and operations and the trust funds (exclusive of the Endowment Trust Fund). He believes that matching funds are a way of reallocating the existing base and is reluctant to recommend the total removal of any matching requirement. The trust funds now total about 3 percent of a \$1 billion budget. One of Mr. Davies' colleagues describes the trust funds as, "the rudder that the state uses to steer the ship." Secondly, another discussion concerning reallocation addressed the idea of a formal program administered by the state that requires institutions to begin reallocating their budgets in lieu of requiring matching funds for several trust funds.

*SUBCOMMITTEE
DISCUSSION*

DISCUSSION: Mr. Ramsey viewed the agreement reached between the presidents and the Council president as a conceptual framework for the 2002-04 budget development process. He wants the document to be revised so that the meaning of each point is more clearly stated. After the points are clarified, revised benchmarks can be negotiated and legally mandated programs determined.

Mr. Whitehead agreed and suggested that the working document be presented to the Council's Finance Committee between November 2000 and January 2001. The Subcommittee could consider any revisions to the document in January 2001.

Mr. Davies stated that using the Council's Finance Committee to review the document would expedite the process, but that some of the original points would require more than two months to clarify. Specifically, determining the mandated programs will require a significant amount of time because of the research involved in identifying the mandates at both Kentucky institutions and the benchmark institutions. President Alexander agreed.

Mr. Moberly wants the Subcommittee to be kept apprised of the issues discussed and the details being established. Mr. Davies stated that after the presidents meet in December, he would send a communication to the Subcommittee members highlighting the discussions and providing the members an opportunity to respond. Mr. Whitehead mentioned that the Subcommittee members are welcome to attend the Council's Finance Committee meetings. Mr. Greenberg stated that the Finance Committee members believe Subcommittee input is critical because each of the four parties represented by the SCOPE Operating Budget Review Subcommittee must have a comfort level with the process.

Ms. Luallen stated that it was encouraging to see the consensus that was forming and hoped that the spirit of cooperation and collaboration would continue. She believes the presidents and the Council staff are better able to deal with many of the controversies and challenges that have arisen than those who were asked to help develop the support for the Operating Budget Review.

OTHER BUSINESS

The next meeting of the SCOPE Operating Budget Review Subcommittee will be in January 2001.

Mr. Gary Cox, president of the Association of Independent Kentucky Colleges and Universities, had requested to address the Subcommittee at its December meeting, but since the December meeting was postponed, he was invited to address the Subcommittee in January.

ADJOURNMENT

The meeting adjourned at 11:50 a.m. (ET).

Respectfully submitted,

Ron Carson
Senior Fellow

Billie D. Hardin
Secretary

Points of Consensus among University Presidents, KCTCS President, and the Council President Concerning the 2002-04 Funding Methodology January 8, 2001

I. Base Funding

Provision 1: In recognition of the Commonwealth's commitment to an excellent system of postsecondary education and postsecondary education's linkage to economic development growth, recommendations for funding to be appropriated to the base budgets of the universities and the Kentucky Community and Technical College System will provide the following:

- a) An inflationary increase as provided to other agencies of state government.
- b) Maintenance and operation funds to support new educational and general buildings approved by the General Assembly.
- c) Changes in debt service requirements for institutional bond issues supported from state appropriations and to be paid by the institution.
- d) The benchmark method is one of several acceptable approaches to establish institutional base budgets and should be retained to determine equity adjustments to the base General Fund appropriations to the institutions. However, the current model will be supplemented and strengthened. Institutions will have the opportunity to negotiate the replacement of up to five institutions from their current benchmark lists. In addition, the benchmark method should be augmented to address the differential costs related to new undergraduate and graduate enrollments through a new Enrollment Growth and Retention Trust Fund (Section II).

Clarifying Statements

- Based on actions of the council, the governor, and the General Assembly to reaffirm the state appropriation bases of institutions, no redistribution among institutions of existing institutional General Fund base appropriations should occur. Institutional General Fund base budgets should not be reallocated through the state budgeting process.
- General Fund appropriations to institutions should continue to be lump sum with necessary accountability requirements.
- Institutions should continue to have the delegated authority to set tuition rates.
- The annual General Fund base increase request should be, at a minimum, the percentage provided to state agencies in the Legislative Research Commission's promulgated biennial *Budget Request Manual*.

- The benchmark method will involve a review of benchmark institutions using objective data consistent with the existing selection criteria. Universities with medical schools will not be considered as benchmark institutions for the Kentucky comprehensive universities.
- Adjustments to institutional base budgets should include across-the-board inflationary increases for all institutions as well as adjustments resulting from the benchmark process.
- The cost differential related to new undergraduate and graduate enrollments should be addressed through a new Enrollment Growth and Retention Trust Fund (Section II).
- If feasible, a study should be undertaken to identify General Fund debt service at the benchmark institutions. The identified General Fund debt service amounts should be factored out of data for both the Kentucky institutions as well as the benchmark institutions.

Provision 2. Actual tuition should not be an offset against General Fund appropriations.

Clarifying Statements

- Kentucky's funding approach needs to reflect the shared funding responsibility between the state and the student (tuition).
- A uniform standard for determining the tuition deduction from the calculated public funds amount should be developed. The standard deduction should be lower for KCTCS than for the universities.

Provision 3. The council and the institutions should identify and agree upon mandated public service and research programs having no student enrollments or instructional function. These will be factored out of benchmark funding evaluations.

Clarifying Statements

- Institutions should identify state-funded mandated public service and research programs funded through General Fund appropriations having no student enrollments or instructional function. These programs could be identified through, for example, a search of the Kentucky Revised Statutes. Institutions should provide appropriate documentation including the date the program was created and the levels of General Fund support over time.
- In order for the removal of mandated programs to be useful in the benchmark process, public service and research General Fund appropriations should be treated as consistently as possible across all Kentucky institutions and their respective benchmark institutions. If feasible, a study should be undertaken to identify similar mandated programs at the benchmark institutions. Such General Fund appropriations should be factored out of data for both the Kentucky institutions as well as the benchmark institutions.
- The institutions and the council should strive to have mandated programs separately identified in future budget bills to clarify each institution's base General Fund operating appropriation.

II. Trust Funds

Trust funds should be maintained. An Enrollment Growth and Retention Trust Fund should be recommended and should recognize the differentiated costs of undergraduate and graduate instruction. Funding amounts should be based on the council's recommended benchmark funding objectives and upon enrollment and retention goals negotiated with each institution.

Clarifying Statements

- The trust funds approach is important for assuring the achievement of *Strategic Agenda* goals. Distribution criteria for each trust fund, including the criteria for determining institutional allocations and matches (if any), should be part of the council's 2002-04 budget request.
- Enrollment growth and retention funds should be requested through an Enrollment Growth and Retention Trust Fund with performance goals negotiated with the institutions as the criteria to access funds.
- The Enrollment Growth and Retention Trust Fund should recognize the differentiated costs of increased undergraduate and graduate enrollments. Funding amounts for the Enrollment Growth and Retention Trust Fund should be based on each institution's benchmark funding objective per FTE.

III. Special Funding

Funding of special and meritorious initiatives may be designated by the council for flow-through funding; however, guidelines will be promulgated well in advance.

Clarifying Statements

- Criteria for the council's evaluation of special initiative requests will be established early in the process.
- The Commonwealth, through its partnership agreement with the U.S. Office for Civil Rights, is committed to enhancing Kentucky State University. KSU and the council should fulfill this commitment through further discussions.
- Institutions should be provided an opportunity to request increases in General Fund appropriations for mandated programs that have been factored out of the benchmark process.

IV. Endowment Match Program

The Endowment Match Program should be retained at least through the 2002-04 biennium.

Clarifying Statements

- Matching requirements play an integral part of the Endowment Match Program by providing incentives for private fund-raising.
- Matching funds received from private donors for the Endowment Match Program should be endowed.
- Special consideration may be given to institutions with demonstrated difficulty in meeting matching requirements such as additional time to match their allocated state funds.

V. Space Planning Guidelines

The space planning guidelines will be further reviewed as to coding of research space, quality of space, and fitness for purpose.

Clarifying Statements

- The council should submit a capital projects recommendation for the 2002-04 biennium to the governor and the General Assembly based on requests submitted by institutions under guidelines developed by the council early in the budget process. The Space Planning Guidelines will be revised to address coding of research space, quality of space, and fitness for purpose.
- Capital funding guidelines should allow for requests for capital renewal of existing facilities, equipment replacement, and equipment acquisitions consistent with the goals of House Bill 1 and the Strategic Agenda. The council should advance requests for new facilities when necessary to accomplish a specific strategic goal or support the mission of the institution.
- The Capital Renewal and Maintenance Program should continue to be based on projects recommended by the council.
- The council should continue to recommend a sufficient agency bond pool amount and recommend that institutions have the autonomy to bond their own projects without affecting the state bonding capacity.